

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Johnson Analyst: LuAnna Hass Bill Number: SB 1534  
Related Bills: See Prior Analysis Telephone: 845-7478 Amended Date: May 6, 2004  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Allow Taxpayers With Income Less Than Specified Amounts To use Form 540 2EZ

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 19, 2004.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED \_\_\_\_\_ STILL APPLIES.

OTHER - See comments below.

## SUMMARY

This bill would require the Franchise Tax Board (FTB) to provide taxpayers with the option of using a specific income tax form that they otherwise would not qualify to use.

## SUMMARY OF AMENDMENTS

The May 6, 2004, amendments would require the Legislative Analyst, in consultation with FTB, to conduct a study on the impact of the revised Form 540 2EZ tax form and report to the Legislature by January 1, 2008. The report must include the 1) number of filers using the revised tax form, 2) effectiveness of the revised form in the simplification of preparing taxes for those eligible to use the form, and 3) impact the revised form has on FTB's administration of the Personal Income Tax Laws.

The department's original and revised analyses of the bill as introduced February 19, 2004, still apply. For convenience, the Implementation Considerations, Fiscal Impact, and Policy Concerns are included below. The department has included a new policy concern regarding the Form 540 2EZ and the impact to e-filing.

## POSITION

Pending.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<u>X</u> PENDING

Legislative Director

Date

Brian Putler

5/25/04

## **ANALYSIS**

### **IMPLEMENTATION CONSIDERATIONS**

Requiring a specific form to be made available as a filing option for certain taxpayers would reduce FTB's flexibility in developing new forms or revising existing forms. Currently, form changes occur for a variety of reasons, including legislative changes, FTB program requirements, or taxpayer and tax preparer suggestions.

Current state law allows the department to design forms that ease taxpayer compliance. FTB is committed to simplifying the ways Californians file their returns and pay their taxes while minimizing the cost of processing returns. The department has an ongoing history of easing the administrative filing burdens on taxpayers and helping individuals file their tax returns faster and economically. The department is constantly improving filing systems, which includes forms. For example, the department has added programs like free Internet filing, electronic filing, and Telefile; offered simpler paper returns like the Form 540 2EZ; and provided a variety of scanning options. Department staff is available to explore ideas for simpler forms, new forms, and other methods of filing.

To specify statutorily income thresholds for specific tax forms and to require reporting of dividends, interest, and other income not already included on Form 540 2EZ, FTB would need to add additional lines to the Form 540 2EZ. This change would result in substantially increasing the number of pages of the tax tables and the instruction booklet. In addition, since the bill does not differentiate between residents and nonresidents, additional lines and computations would be necessary to determine California-source income. See Fiscal Impact, below regarding department costs.

California generally conforms to the federal definitions of "gross income," "AGI," and "taxable income." This bill would introduce the new term "total income." This change could cause confusion leading to disputes with taxpayers regarding tax liability.

The author may wish to provide filing requirements for taxpayers qualifying as head of household, qualifying widow(er) with dependent child, or married filing separately since the bill does not specifically address these filing statuses. Department staff is available to provide such amendments upon request.

## **FISCAL IMPACT**

This is a preliminary costing. New tax tables to account for the new income limitations, a new tax rate schedule, and revisions to the instructions would increase the number of pages in the tax booklet. The department estimates that this bill would result in an increase of approximately 16 pages to the Form 540 2EZ booklet. The increase also would result in additional mailing costs. The department estimates that increasing the number of pages in the tax booklet by 16 will cost \$120,000 and that the added weight to the booklets will result in additional mailing costs of \$31,000. The total additional costs would be approximately \$151,000.

This preliminary costing would not take into account any other provisions of the bill including the addition of dividends or pension income, other than U.S. Social Security pension or Railroad Retirement pension, to the Form 540 2EZ.

## **POLICY CONCERNS**

By changing the income limits, this bill would allow about 300,000 more taxpayers, including seniors, to use the Form 540 2EZ. However, if the taxpayer does not meet the remaining requirements to file the Form 540 2EZ, such as having no itemized deductions or adjustments to income, the taxpayer would be unable to file their return using the Form 540 2EZ. If Form 540 2EZ were changed to allow items such as itemized deductions or adjustments to income, it would then resemble the Form 540A in appearance and complexity, thus potentially defeating the purpose of this bill.

In addition, allowing additional taxpayers to use the Form 540 2EZ would run counter to FTB's strategic plan by expanding a paper filing option when the department's strategic goal is to encourage taxpayers to e-file. To achieve this goal, FTB tries to expand e-file by adding improvements, services, and options to enhance the taxpayer and tax professional's tax filing experience. As a result, for the 2004 processing year that began in January, FTB has received 6.7 million e-file returns for the 2003 taxable year, which represents approximately 60% of the current year returns filed as compared to only 36% last year. Of the total *e-filed* returns received thus far, approximately 730,000 are Form 540 2EZ returns, which is a 32% increase over last year. On the other hand, the department has received approximately 871,000 *paper* Form 540 2EZ return, which is a 17% decrease in the number of paper Form 540 2EZ's being filed. However, this bill could potentially result in an additional 300,000 taxpayers filing a paper Form 540 2EZ at a time when the department is encouraging electronic filing.

## **LEGISLATIVE STAFF CONTACT**

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